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PROSPECTS FOR DEVELOPING TRADE BETWEEN AFRICAN COUNTRIES AND THE USSR AND MAJOR MARKET OPPORTUNITIES

(Note by ECA Secretariat)

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PROSPECTS FOR DEVELOPING TRADE BETWEEN AFRICAN COUNTRIES AND THE USSR AND MAJOR MARKET OPPORTUNITIES

I. INTRODUCTION

1. Trade and economic relations between the African countries and the socialist countries of Eastern Europe have been in existence for a long time but the modern dates back to the attainment of independence by the majority of African countries some twenty-five years ago. However, the past two decades have witnessed a steady increase in trade and economic co-operation between these two regions, assuming the growing number of concluded bilateral and multilateral agreements is one such measure.

2. The tempo of economic and political relationship between Africa and the socialist countries of Eastern Europe accelerated from about the late 1950s. Both Africa and its East European partners have in various forums, expressed a political will to develop and expand their mutual trade and economic relations One of the most significant steps of this political will on the part of the African countries was the adoption of the Lagos Plan of Action and the Final Act of Lagos by the Assembly of Heads of State and Government of the Organization of African Unity (OAU) in April 1980. The Lagos Plan of Action urges inter alia for the «promotion and expansion of trade and economic co-operation with the developed countries having centrally planned economies, taking into account member States due rights to determine their own individual policies in this respect».

3. In the meantime, there have been several important meetings of African trade officials addressing this issue since the adoption of the Lagos Plan of Action. Their attention has also focussed on a number of areas intended to enhance such trade. To this end, the eighth Conference of African Ministers of Trade in October 1985 requested the ECA Secretariat in co-operation with UNCTAD and Council for Mutual Economic Assistance (CMEA) to organize an expert meeting or a roundtable of high-ranking officials and experts from Africa and the socialist countries of Eastern Europe to consider the most effective ways of encouraging t trade flows between the two groups of countries. Similarly, organizing trade missions and business tours between them was also cited as a better ways of effectively promoting of trade and economic co-operation between Africa and East European countries. Subsequently, the ninth session of the Conference of African Ministers Trade in March 1987 adopted a special resolution which reiterated the need to intensify efforts in this area. The present paper has been prepared in response to this request.

II. CURRENT SITUATION OF AFRICA'S TRADE WITH THE SOVIET UNION

4. Among the group of socialist countries of Eastern Europe the USSR is the largest trading partner with developing Africa. In 1960, the Soviet Union had trade relations with only six African countries. Before then products of the USSR and other East European countries were hardly known to African importers.

However, Soviet - African trade exchanges increased by about 500 per cent from US$49.3 million in 1955 to reach US$1.4 billion in the middle of 1970s. The above upward trend has in the meantime tended to slightly slow down, especially towards the end of 1970s, when the share of both partners declined. Somehow, this downward tendency, as appears from the available statistical data, was reversed between 1981 and 1984. This period was characterized by renewed dynamic upturn in Africa's trade with the Soviet Union.

5. An examination of the statistics in Table 1 reveals that in relative terms, the Soviet trade with the African region over years 1980-1985 ranges between 1.8 and 3.1 per cent for exports and imports respectively. Even within the category of the developing countries' trade with the USSR, Africa currently accounts only for about 12.5 per cent of imports of the Soviet Union. On the other hand, her share in total USSR exports to the developing regions is even lower and stands at only 8.0 per cent.

Table 1. TRADE OF THE SOVIET UNION WITH DEVELOPING AFRICA

(in million US dollars)

	1980	1981	1982	1983	1984	1985
Imports from Africa	1.572	1.634	2.412	2.297	2.405	2.253
As a percentage of total imports	2.3	2.2	3.1	2.9	3.0	2.7
Exports to Africa	1.352	1.614	1.794	2.111	1.763	1.567
As a percentage of total exports	1.8	2.0	2.1	2.3	1.9	1.8

Source: Monthly Bulletin of Statistics, Vol. XL No. 7, July 1986. United Nations, New York, 1986.

6. If we now examine the situation from the Africa's side, we also discover that in terms of relative importance in the overall trade flows, African relations with the Soviet Union are far from being a significant factor in their economic development. Thus, for instance in 1983, Africa's exports to USSR constituted only 0.8 per cent of total African exports. At the same time, imports from the USSR amounted to 3.2 per cent of total imports of the region. In other words, the existing potential in this area has not been fully utilized.

Commodity composition of trade

7. African exports to USSR consist predominantly of agricultural raw materials and food items, among which cocoa, coffee, spices and tropical beverages are significant. The pattern of African exports to the USSR as compared to the overall exports is different. This is because the Soviet Union, an important exporter of fuel and many mineral products, does not import much from Africa. Therefore, the relative weight of such commodity groups as food, beverages, chemicals and certain manufactured goods is much higher in trade with the Soviet Union as in the case of trade with Africa's traditional partners.

8. On the other hand, Africa's imports from the Soviet Union basically consist of manufactured goods. Road building machinery, tractors and other farm machinery feature prominently in USSR exports to North African countries, especially the Libyan Arab Jamahiriya, Algeria and Egypt, which account for over 50 per cent of Soviet exports to the region. Other exports to Africa include cement, glass, fuel, ferrous and non-ferrous metals, fabrics and motor vehicles.

III. SCOPE FOR EXPANSION IN AFRICA'S EXPORTS TO THE SOVIET UNION

9. Agricultural commodities constitute the main export of African countries to the Soviet Union. The share of all socialist countries exports of food items, represented only 10.2 per cent of total African of these commodities in the period 1981-1982. Given the broad range of primary commodities under this group (covering such products as coffee, cocoa, tobacco, tea, sugar, fish and meat) there appears to be much room for increased African exports of those commodities to East European countries, and in particular, to the Soviet Union.

10. In the case of other agricultural raw materials such as hides and skins, natural rubber and cotton, a significant potential for increased trade also exists. In mineral products and fuels, the potential for increased trade based on the natural endowment of the USSR can hardly be expected to change dramatically within such a short period of time.

11. A review of the Soviet Union imports of African products reveals that for many commodities this country is one of the largest buyers in the world. Moreover, its share in total world imports of primary commodities has been increasing. This is clearly shown in the following table.

Table 2

USSR SHARE IN WORLD TOTAL PRIMARY COMMODITY IMPORTS VALUES
(in per cent)

	1966	1970	1975	1980	1984
All primary commodities	3.5	3.1	4.9	4.7	5.6
Agricultural products	3.9	3.7	6.4	5.8	6.8
Minerals and metals	2.2	1.5	1.6	1.4	1.3
18 IMF products*	...	3.5	5.7	5.6	7.0

*The 18 core products under the Integrated Programme for Commodities (IPC) include: vegetable oilseeds and oils, sugar, timber, cotton and cotton yarn, coffee, copper, iron ore, bovine meat, natural rubber, tin, phosphate rock, cocoa beans, bananas, tea, jute and jute products, bauxite, manganese ore, hard fibres and manufactures.

Source: UNCTAD Commodity Yearbook, 1986, United Nations, New York, 1987.

Table 3

SHARE OF PRIMARY COMMODITIES IN ALL MERCHANDISE IMPORTS VALUES OF THE USSR
(in percentage)

	1966	1970	1975	1980	1984
All primary commodities	32.6	25.4	27.6	28.7	25.8
Agricultural products	27.9	22.2	25.6	26.6	24.4
Minerals and metals	4.7	3.3	2.0	2.1	1.4
18 IPC commodities	...	10.1	11.0	10.7	9.4

Source: UNCTAD Commodity Yearbook, 1986, United Nations, New York, 1987.

12. Tables 2 and 3 show that the Soviet Union is one of the largest importers of primary commodities in the world, but also the share of these products is quite high in its import structure. In fact, the USSR was the fourth largest importer of 18 IPC primary commodities in the world after Japan, United States of America and Federal Republic of Germany in 1984 with the value of 9.3 billion US dollars. As for individual commodities, the USSR was the first largest importer of sugar, second in tea, occupied forth place in natural rubber, tin, cocoa beans, and fifth in bauxite in the same year. It is for African countries to strive hard in order to increase in this lucrative market.

13. A study on trade between African countries and Eastern Europe, recently prepared by UNCTAD secretariat, 1/ shows that the demand for Africa's primary commodities from the Soviet Union will be growing if present trends continue. Consumption of such items as fibres, coffee and cocoa has been rising at rates higher than average over the 1980-1985 period. Moreover, the per capita consumption of these products in the USSR is still far from reaching the levels of developed market economies, hence, a potential is great and requires to be tapped.

(a) Trade in Food products

14. The food importes will be decisively influenced by the internal food production and consumption in the USSR? Taking into account the priority recently given to agro-industry, there is good chance that overall agricultural performance will improve. This is to be achieved by raising productivity through economic and price incentives and marketing of agricultural produce, as well as by reduction in crop losses through massive investment aimed at improving harvesting and transportation.

15. Projections show a substantial reduction in USSR agricultural imports in overall terms for the major part in food grain, fodder grain and animal fee. However, it is expected that Soviet food imports from developing African countries will continue to grow rapidly, quite probably at a pace exceeding the growth of total imports. This argument is based on the evidence that the strategy of the Soviet Government is to diversify food consumption in line with measures aimed at increasing the standard of living which will be a major impetus for imports of various food products, including those of tropical origin. In addition to that, savings in hard currency resulting from lower grain imports can be channelled to other food products.

16. Prospects are also quite good for increased imports by the USSR of tropical beverages, various oils, fruits, meat and meat products. Of course, real growth in trade in these products will depend on such factors as availability of facilities to handle perishable products like fresh fruits, and co-operation in the field of production and sanitation to meet specific health requirements of the consumer (as in the case of meat). Possibilities to expand trade in this field exist, and African countries should not only be aware of these possibilities but must be ready to exploit them for their benefits.

17. African agricultural products, especially fruits and their processed derivatives, are practically unknown to an average Soviet consumer. A practical way of promoting Africa's trade would be to introduce among the consumers the taste for African fruits, vegetables and even manufactured goods. The study prepared by International Trade Centre (ITC) on marketing of pineapple juice in the Socialist countries provides background for African producers to embark on export drive of pineapples to USSR with a view to introducing pineapple juice to Soviet consumers.

1/ Trade and Economic Co-operation between African Countries and Socialist Countries of Eastern Europe. UNCTAD/GI/136/7 4 July 1986.

18. Pepper is another agricultural product with considerable market potential in Socialist countries, particularly in the Soviet Union. For instance in 1976, pepper imports in the Soviet Union were value at about $17.9 million with wide use of this spice in the fishery, meat and pharmaceutical industries. Presently imports of pepper are confined mainly from Brazil and India. However, African countries can exploit the market of spices to diversify their primary commodities exports.

(b) Trade in Manufactures

19. The Soviet Union is a net importer of industrial consumer goods, and judging by the supply and demand situation in the country, this product has a substantial prospect for import growth. However, the major limiting factor in this aspect might be the problems relating to payment arrangements. Successful penetration of the Soviet market by African manufactures depends on the quality of the products and their ability to compete in the market.

(c) Scope for improving African imports from the Soviet Union

20. The commodity structure of exports from the Soviet Union to Africa shows a concentration on industrial goods, with the Arab countries of Northern Africa providing major markets. The very structure of the economies of these countries, as determined by their natural endowments of petroleum and natural gas, has stimulated Soviet exports of plants and heavy machinery, chemicals, electric power installations, cables and sawn timber to those countries. Both the volume and value of these exports have risen rapidly in recent years and prospects for expansion are good, given the scope for development in this subregion.

21. Sub-Saharan Africa, on the other hand, accounts for a considerably smaller portion of Africa's imports from the USSR. The continued traditional pattern of relations with the developed market-economy countries and the narrow range of products exported by the Soviet Union to this part of Africa, accounts for the low level and slow growth of the former's exports. Problems of payments are also a major obstacle to such trade. Imports are generally dominated by heavy agricultural and industrial goods. It should be mentioned that while industrial goods are indispensable to the industrialization process of sub-Saharan Africa, the immediate development needs of the subregion as indicated in Africa's Priority Programme for Economic Recovery (APPER) are agriculture. Therefore, imports from the Soviet Union should concentrate on agricultural inputs.

IV. MAIN AREAS OF FUTURE ECONOMIC CO-OPERATION BETWEEN AFRICA AND THE SOVIET UNION

22. The development of Africa's industrial capacity is essential for the expansion and diversification of the continent's external trade. Therefore, in order to promote trade with the Soviet Union, as well as with any other socialist countries, Africa has to develop its industrial capacities with a view to increasing trade in manufactures.

23. In view of this, future economic co-operation arrangements with the USSR should aim at accelerating the pace of Africa's industrialization. The Soviet Union has through various economic, scientific and technical agreements, extended substantial assistance to a number of African countries in the latter's efforts to improve their industrial capacity. In response to the development needs of recipient African countries, such projects have largely concentrated on industry, large-scale agriculture, energy sector, transport and communications, as well as education and technical training. The new economic co-operation agreements cover the following activities: (i) the construction, assembling, and commissioning of industrial projects; (ii) the design and execution of engineering projects; (iii) the supply of equipment and machinery; (iv) geological prospecting; and (v) the supply of entire plants on «turn-key» basis.

24. Many African countries are overdependent on imports for essential consumer items especially the manufactures. The Soviet Union, perhaps in collaboration with other socialist countries of Eastern Europe, may supply plant and equipment necessary for the establishment of certain light industries appropriate for processing Africa's raw materials locally. Apart from textile industries and clothing, such co-operation may prove quite promising in the production of leather footwear and other leather products, including processing of oil, fruits and vegetables. Wood and wood products including furniture also offer great potentials for African exports to the Soviet Union.

25. One of the possible arrangements for such kind of co-operation is the so-called compensation agreement, currently in wide use in East - West economic relations. Under these agreements the cost of the equipment installed is compensated by the goods produced by the enterprises. In this manner, the obstacle of non-availability of financial resources for the construction of the plant is overcome and certain level of exports to the suppliers of equipment, is also guaranteed.

26. Another possibility for [illegible] co-operation lies with joint ventures. This mechanism does not in itself guarantee accelerated development of trade and there have been unsuccessful ventures in the past. Nevertheless, if properly negotiated, the joint venture may be one of the optimal forms of industrial co-operation. Fields for such co-operation could cover servicing of intalled plants and equipment, marketing, management and consultancy services, which offer opportunities for the acquisition by African partners of scientific, technological and managerial know-how.

V. PAYMENT ARRANGEMENTS BETWEEN AFRICA AND THE SOVIET UNION

40. Africa's trade with the Socialist countries of Eastern Europe is constrained by payments difficulties arising from overall balance-of-payments problems. From this perspective, the extension of liberal credits and payments terms by the Soviet Union has become a factor of importance in Africa's trade expansion. Credit facilities are provided within the framework of trade and economic co-operation agreements concluded between the Soviet Union and the developing African countries. These include:

(i) Government credits. Credits are granted by the USSR Government through the State Bank on fixed terms and conditions usually for the financing of projects covered under long-term agreements. The rates of interest are usually fixed between 2.5-3.0 per cent, with amortization periods of up to 10-15 years and a grace period up to 5 years

(ii) Bank credits. These are usually granted to African countries to enable them to finance their trade under the terms of trade agreement with the Soviet Union. The distinction between this type of credit and government credits is the limited period (usually two to three years) for repayment within which they are granted, although their more flexible nature permits an extention of repayment periods. The rates of interest generally follow trends in the world money markets, but they are lower

(iii) Commercial credits. Foreign trade organizations of the USSR operate like normal commercial enterprises and they are able to help raise commercial for their trade partners. Interest rates on these credits are also negotiable loans and are generally rather low. The repayment period could last up to five years, depending on the type of goods purchased, in case of heavy machinery and equipment purchases it could extend up to 10-20 years.

Clearing systems

28. In recent years African countries have resorted more and more to various schemes aimed at reducing the burden on scarce convertible currency. These efforts include, inter alia, creation of multilateral clearing systems in intra-African trade, renewed interest in barter deals and various countertrade arrangements. The Soviet Union provides for payment arrangements, including possibilities for «non-cash» payments in its trade and economic agreements with developing African countries. With skilful negotiation, these arrangement could help alleviate the repayment strain on the beneficiary country. A number of developing countries, especially in Asia, have already exploited this system with success and their experience of the system might prove valuable to many African countries in their efforts to reduce their international payments problem.

29. Clearing arrangements as practiced in current commercial transactions, offer a number of advantages to a developing country. First of all, it cushions against losses in foreign exchange caused by sharp fluctuations in exchange rates of major currencies, inflation and speculative activities. The clearing system further helps in improving the structure of national exports of African countries by including new products, particularly manufactures thereby providing outlets for their traditional commodities. Further more, clearing arrangements allow African countries to import from the USSR without foreign exchange payments, saving much needed hard currency resources.

29. However, there are certain drawbacks in this system, which led to its replacement by payments in convertible currencies in the second half of the 1970s and early 1980s. Nowadays, according to available data, not a single African

country maintains a clearing arrangement in trade relations with the Soviet Union. However, the eighth session of the Conference of African Ministers of Trade held in October 1985 recognized the potential of "payments and clearing systems" as a means of financing trade and as a way in which African countries could take better advantage of their relations with the socialist countries of Eastern Europe, including the USSR.

CONCLUSIONS

30. In specific terms, prospects for Soviet - African trade expansion depend primarily on the pace and scope of economic development in African countries and on the pattern of structural change in the Soviet Union. The potential for such expansion can, however, be exploited only with the creation of conditions conducive to the promotion of mutual economic relations as well as elimination of factors inhibiting such development.

31. From the analysis in preceding chapters it can be inferred that prospects are good for expanding African trade with the USSR in certain commodity groups such as agricultural raw materials and food products. This is despite numerous economic problems which are currently faced by the region. With increased production, vigorous export drive and establishment of adequate transportation link and trade facilitation between developing Africa and the Soviet Union, the region's exports to the latter should steadily increase both in medium-term and long-term perspectives.

32. In the long-term perspective however, much will depend on the success of efforts from both sides aimed at promoting the economic and industrial co-operation. In this respect, it is critically important that African countries take the initiative in approaching the USSR with the view to establishing necessary co-operation framework and implementing specific industrialization programmes designed to enable them to export a wider range of products, including manufactures, to the Soviet market. There is therefore a need for elaboration of a programme of further action for the promotion of those relations, commensurate with the challenges of the 1980s and 1990s.